

Technical Note

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; the note also provides some perspective on the estimates. Additional material will become available in the next several days; much of it will be posted to BEA's Web site: <www.bea.doc.gov>. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*. The *Survey* also will provide a more detailed analysis of the estimates ("The Business Situation").

Gross Domestic Product and Corporate Profits, First Quarter 2001 (Final)

Real GDP (revised): Real GDP is now estimated to have increased 1.2 percent in the first quarter of 2001, 0.1 percentage point less than in the preliminary estimate. Real GDP increased 1.0 percent in the fourth quarter of 2000.

As in the preliminary estimate, the growth in real GDP reflected growth in consumer spending and government spending. The largest offset to GDP growth in the first quarter was a sharp drop in inventory investment. Also, as in the preliminary estimate, real final sales of domestic product--GDP less the change in private inventories--increased substantially more than real GDP.

Prices (revised): The chain-type price index for gross domestic purchases increased 2.7 percent in the first quarter, 0.1 percentage point less than in the preliminary estimate. This index increased 1.9 percent in the fourth quarter.

Corporate Profits (revised): Profits from current production decreased \$45.7 billion (annual rate) in the first quarter, following a decrease of \$55.6 billion in the fourth quarter. Current-production profits were revised down \$24.4 billion from the preliminary estimate. Compared with the same quarter a year ago, current-production profits in the first quarter of 2001 decreased 7.2 percent. The current-production measure differs from profits as they are usually reported in corporate financial statements. It excludes non-operating items, such as special charges and capital gains and losses, and is based on depreciation of fixed assets and inventory withdrawals valued at current cost, rather than at historical cost.

Sources of Revision

Real GDP: The small downward revision to real GDP reflected offsetting revisions to net exports and to consumer spending. The revision to net exports reflected the incorporation of revised trade in goods and services data from BEA's annual revision of the international transactions accounts released last week; the revision to consumer spending primarily reflected revised Census Bureau retail sales data, which incorporate

the annual retail trade survey. Both the revised trade in goods and services data and the revised retail sales data were incorporated on a "best-change" basis--that is, the revised changes in the source data from the fourth quarter of 2000 to the first quarter of 2001 are reflected in the estimates released today.

Most of the Census Bureau's monthly data that are used in the calculation of GDP were recently converted from the Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS). As mentioned, the revised estimates of consumer spending for goods were based on revised retail sales data, which are now reported on a NAICS basis. There were also small, offsetting revisions to selected categories of business investment in equipment and software, based on revised Census NAICS-based shipments data. The estimate of nonfarm inventory investment, however, was based on the same SIC-based inventory data that were used for the preliminary estimate; thus, the estimate was unrevised. The full set of newly released NAICS-based monthly data for retail sales, manufacturers' shipments, and inventories for 1998 through the first quarter of 2001 will be incorporated as part of the annual revision of the national income and product accounts (NIPA's) to be released July 27, as described below.

Annual Revision Scheduled for July 27

The GDP news release on July 27 will present the regular annual revision of the NIPA's covering the estimates from the first quarter of 1998 through the first quarter of 2001, as well as the advance estimates for the second quarter of 2001. The revision will incorporate source data that are more complete, more detailed, and otherwise more appropriate than those previously available. The revision will also incorporate improvements that reflect changes to source data and estimating methodologies and to tables that present the accounts, as summarized below.

The newly incorporated source data will include the following: Census Bureau annual surveys of manufactures, of merchant wholesale and retail trade, of services, and of State and local government, and monthly survey of construction; BEA international transactions accounts; federal government budget data; Internal Revenue Service tabulations of tax returns for corporations and for sole proprietorships and partnerships; Bureau of Labor Statistics (BLS) tabulations of wages and salaries of employees covered by state unemployment insurance; and Department of Agriculture farm statistics.

Methodological changes

- Quarterly estimates of fixed investment in prepackaged and custom software will be improved, using data on receipts from company reports to the Securities and Exchange Commission (SEC) and data on monthly retail sales of business software from a trade source.
- A newly available price index from the Federal Reserve Board that reflects quality improvements to local area network (LAN) equipment--routers, switches, and hubs--will be incorporated into the estimates of communication equipment within private fixed investment.

New and redesigned tables

- The estimates of inventories will be converted from an SIC basis to a NAICS basis. The conversion will affect the detailed estimates by industry but not the aggregate measure of the change in private inventories; thus, current-dollar and real GDP will not be affected by the conversion (though the usual incorporation of newly available source data will result in revisions to the inventories estimates). The redesigned tables are described in a note in the June issue of the *Survey of Current Business*, which is available on BEA's Web site.
- A new table will present contributions to percent change in the gross domestic purchases price index. This table shows the effects on the percent change of the overall price index of changes in the prices of the components of gross domestic purchases.

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